

House Finance Special Subcommittee studying Tax Preferences (HR 5004)

August 23, 2004 Meeting

The second meeting of the House Finance Special Subcommittee studying Tax Preferences was held on August 23, 2004 in Richmond. The purpose of the meeting was for the members to receive more specific details about the numerous tax preferences found in Title 58.1 of the Code of Virginia. Information on income tax and sales and use tax preferences was shared with the members. No action was taken at the meeting's conclusion except to announce there would be a public hearing during the next meeting and the subcommittee would like to hear from interested parties, especially businesses that benefit from tax preferences.

Introduction

Following Chairman Drake's opening remarks, Legislative Services staff offered some "food for thought" in an effort to assist the members of the special subcommittee in deciding what approach they might take to the study. A copy of a report titled "Report of the Subcommittee Studying Criteria for Sales Tax Exemption Bills" was briefly reviewed. The report came out of a study done in 1979 by members from both the House and Senate Finance Committees. That subcommittee developed a list of criteria and questions to consider when examining sales and use tax exemption bills. Many of the criteria could be adapted to income tax preferences as well.

The entire report can be viewed at the Division of Legislative Services website under Studies, HR 5004, Meetings, August 23rd.

Presentations by the Department of Taxation and Subcommittee Staff

Bill White and Christian Tennant from the Department of Taxation next presented information about the income tax preferences. Their presentation was in three charts: Virginia Income Tax Credits, Virginia Individual Income Tax Subtractions and Deductions, and Virginia Corporate Income Tax Subtractions and Deductions. Each chart included the Code section, name, description, date enacted, rationale and the amount of credits claimed or the aggregate amount of subtractions or deductions claimed.

Next, Janie Bowen, from the Department of Taxation, explained what the Sales and Use Tax Expenditure Studies were, and why and when the Department of Taxation prepared them. The studies were produced from 1989 to 1995 and examined all the sales tax exemptions. Their purpose was to give legislators another way to examine the exemptions to determine if they were accomplishing what they were intended to accomplish so that legislators could eliminate those that were not. No exemptions were ever repealed as a result to the studies and

because they required substantial time and manpower to create, the studies were discontinued after 1995.

Finally, Joan Putney and David Rosenberg from Legislative Services summarized information regarding sales and use tax exemptions. This included each exemption category, the year enacted with emphasis on the original 22 exemptions that have been in the Code since 1966, the rationale for the exemption, the fiscal impact based on the expenditure studies done by the Department of Taxation in the early 1990's, and what the surrounding states do.

The income tax charts, sale and use tax expenditure study presentation, and the sales and use tax charts may be viewed in full at the Division of Legislative Services website under Interim Study Committees, Tax Studies HR 5004, Meetings, August 23rd, Handouts.

Next meeting

The next meeting of the subcommittee will be September 28th at 10:00 a.m. in Richmond. At that time the business community and those interested parties may address the subcommittee and explain why the tax preferences are important to them. Anyone wishing to speak should contact the House committee clerk, Bill Owen, or Joan Putney or David Rosenberg at Legislative Services.